

REPORT ON EXAMINATION AS TO THE CONDITION OF

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY PARSIPPANY, NEW JERSEY 07054

AT DECEMBER 31, 2007

NAIC COMPANY CODE 38326 NAIC GROUP CODE 0000

FILED

JUN 30 2009

COMMISSIONER
NJ DEPT OF BANKING & INSURANCE

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE OFFICE OF SOLVENCY REGULATION PO Box 325 TRENTON, NJ 08625-0325

JON S. CORZINE

Governor

Tel (609) 292-5350 Fax (609) 292-6765 STEVEN M. GOLDMAN Commissioner

June 12, 2009

Honorable Steven M. Goldman Commissioner of Banking and Insurance State of New Jersey 20 West State Street Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the provisions of <u>N.J.S.A.</u> 17:23-22, a financial examination has been made of the assets and liabilities, methods of conducting business and all other affairs of the:

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY
119 LITTLETON ROAD
PARSIPPANY, NJ 07054
N.A.I.C. COMPANY CODE 38326
EXAMINATION WARRANT P&C-19

a property and liability insurance organization authorized to transact business in the State of New Jersey, and herein referred to in this report as "FIA," "First Indemnity," or "Company."

SCOPE OF EXAMINATION

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination covered the three-year period from December 31, 2004, the date of the last examination, through December 31, 2007, and included material transactions and/or significant events occurring subsequent to the examination date. During this three-year period, the Company's assets decreased from \$6,614,618 to \$4,640,616, liabilities decreased from \$2,859,320 to \$1,583,215, and surplus as regards to policyholders decreased from \$3,755,298 to \$3,057,401.

The procedures outlined in the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("NAIC Handbook") and the NJDOBI Field Examination Handbook ("NJDOBI Handbook") were used as guides for the examination of the various accounts and records and included the use of direct verification as well as numerous tests, some complete and others on a partial basis. In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control and accounting methods, the nature and size of each account and its relative importance to solvency. Independent CPA audit workpapers were used to the extent possible.

Based upon examination review, no accounts were determined to require special emphasis. The following accounts were assigned standard emphasis as defined in the NJDOBI Handbook:

Bonds, Cash and Short-Term Investments
Investment Income Due and Accrued
Agents' Balances or Uncollected Premiums
Mortgage Loans on Real Estate
Amounts Recoverable from Reinsurers
Losses and Loss Adjustment Expenses
Funds Held by or Deposited with Reinsurers
Ceded Reinsurance Premiums Payable
Payable to Parent, Subsidiaries, and Affiliates
Unearned Premiums

The remaining balance sheet accounts were assigned either reduced emphasis or analytical review status. Additional areas reviewed were in part as follows:

Company History
Management and Control
Holding Company System
Insurance Products and Related Services
Current Federal and Foreign Income Taxes
Fidelity Bond and Other Insurance Coverages
Taxes, Licenses and Fees and Other Expenses
Accounts and Records
Continuity of Operations

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments will be made on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

This examination was conducted at the Company's statutory home office located at 119 Littleton Road, Parsippany, New Jersey 07054.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

The following is a summary of the Company's response to the recommendations of the previous examination report dated as of December 31, 2004:

I. Insurance Products and Related Services

1. <u>Territory and Plan of Operation</u>. It was recommended that the Company procure an agreement conforming to the reinsurance intermediary agency contract provisions and requirements as stipulated and in accordance with N.J.S.A. 17:22E.

Examination Review: The Company *did not comply* with this recommendation and the exception is again addressed under the caption '*Territory and Plan of Operation*' of this report.

II. Holding Company System

2. It was recommended that the Company, in future Insurance Holding Company System Annual registration Statement Form B filings, reflect the proper entities within the holding company organization chart as reported in the Annual Statement Schedule Y, Part-1 Organization Chart in accordance with N.J.S.A. 17:27A-3.

Examination Review: The Company complied with this recommendation.

III. Fidelity Bond and Other Insurance Coverages

3. It was recommended that the Company obtain a fidelity bond in the amount of \$100,000 in accordance with the NAIC suggested minimum requirements.

Examination Review: The Company complied with this recommendation.

III. Continuity of Operations

- 4. It was recommended that the Company perform a mock disaster recovery test to further identify and document essential deficiencies that might exist which could potentially impede the process necessary to establish either a basic or critical system
- 5. Examination Review: At December 31, 2007, the Company was not in compliance with this recommendation; however, subsequent thereto, FIA began to test its Disaster Recovery and Business Continuity Plan. Further details are covered under the subject heading 'Continuity of Operations.'

IV. Notes to Financial Statements

6. <u>Mortgage Loans</u> (1997 Exam Finding). It was recommended that the Company procure and maintain the various relevant documentation customarily associated with mortgages loans, such as insurance policies, tax records, amortization schedules and title policies.

Examination Review: The Company is in compliance. This recommendation relates to the mortgage loans held by the Company as of December 31, 2004, which are no longer existent having been extinguished in 2005. Company has majorly complied with new mortgage loans going forward.

7. Other Expenses (2000 Exam Finding). It was recommended that the Company properly report examination fee accruals with the correct Annual Statement line item 'Taxes, Licenses And Fees' in accordance with NAIC Annual Statement Instructions.

Examination Review: The Company complied with this recommendation.

8. <u>Bonds and Stocks</u>. It was recommended that the Company write down the fair value of its impaired common stock and further account for the write down as a realized loss in accordance with **SSAP No. 30**, paragraph 9.

Examination Review: The Company is in compliance. The Company has fully disposed of all its impaired securities and is no longer invested in stocks.

9. <u>Real Estate</u>. It was recommended that the Company disclose amounts paid or accrued for taxes, repairs and other related expenses in Schedule A-Part 1 of the Annual Statement in accordance with the NAIC Annual Statement Instructions.

Examination Review: The Company is in compliance. During the examination period, the Company sold all real estate property in its possession.

COMPANY HISTORY

The Company was incorporated on December 15, 1978, as a stock company under the laws of the State of New Jersey, and commenced business on December 17, 1979.

An original certificate of authority was issued by the Commissioner of Insurance of the State of New Jersey to the Company on December 17, 1979, authorizing the issuance of 200,000 shares of common stock with a par value of \$10.00 per share, for a total authorized capital of \$2,000,000. This certificate was amended on October 1, 1995, increasing the capital stock to \$3,500,000 divided into 200,000 shares, each having an adjusted par value of \$17.50. All outstanding shares are owned by A.B.S.C.O. Ltd. Corp., which in turn is 57% owned by Patrick J. Lynch, chief executive officer and president of the Company, with the remainder of the stock owned by members of his immediate family. This certificate of amendment also changed the statutory address of the Company to 119 Littleton Road, Parsippany, New Jersey 07054, the current official home address of First Indemnity, and was filed and approved by the Department on February 21 and February 22, 1996, respectively.

This Certificate of Incorporation was again amended on December 14, 2001, to update paragraph three of the Company's charter enabling the Company to only write the kinds of business specified in paragraphs "b," "g" and "n" of N.J.S.A. 17:17-1 et seq., i.e. property and casualty. The amendment was approved by the Deputy Attorney General on January 23, 2002, and filed with the Department on February 11, 2002.

The registered agent in charge, upon whom process may be served, is Joseph C. Glavin, Jr., the Company's General Counsel.

INSURANCE PRODUCTS AND RELATED SERVICES

Territory and Plan of Operation

The Company writes contract, financial guarantee and miscellaneous classes of surety bonds. Surety bonds are written for standard and specialty bond classes, which are predominately focused on general building contractors, sanitation, school bus transportation, security guard, and asbestos abatement.

The Company strives to provide for risk diversification, both geographically and by line of business. Marketing strategy is focused in offering coverage to small and medium size contractors with surety needs

falling below a single bond limit of \$500,000. The main strategic objectives are: (a) prudent utilization of collateral and/or funds control supplemented by reinsurance on a quota share basis, (b) targeting of niche contractors involving public works, and (c) continued service to and coverage of established business/specialty trades, i.e., sanitation, subdivision, and school transportation.

All business is produced through approximately 300 independent agents; however, the Company only deals with about 10-12 agents on an ongoing basis. The Company does not utilize the services of managing general agents. It was noted, however, that the Company was unable to provide a listing of these agents/brokers as well as other audit-specific data, including figures indicating the level of business generated by each producer. As a result, principal-agency relationships were not open for testing and a determination could not be made as to the Company's compliance with the applicable statutes, e.g., N.J.S.A. 17:22D.

It is therefore recommended that the Company establish an accounting and record-keeping system for the acquisition and compilation of data and statistics on all of its producers, and make this information available to NJDOBI to facilitate the review by and satisfy the documentation needs of the Department.

In addition to New Jersey, the Company is licensed to write business in the States of Pennsylvania, Maryland, Georgia, Texas and Oklahoma. However, the largest concentration of business was in New Jersey, which drew 90% of the premium volume as of December 31, 2007.

The Company's home office, headquartered in Parsippany, New Jersey, operates as a full service facility providing underwriting, claims, customer service and management functions, supported by a staff of twenty-four fulltime employees.

The Company has retained the services of *Rattner Mackenzie* (*North America*), *Inc.* to act in its behalf in placing reinsurance business and contracts. It is noted that the Company does not have a written agreement in place with this intermediary commensurate with <u>N.J.S.A.</u> 17:22E-6. This is an exception recurring as of the last exam date.

It is therefore again recommended that the Company obtain written contracts between itself and any reinsurance intermediary-broker(s) in conformity with the stipulations of <u>N.J.S.A.</u> 17:22E-6. Further guidance is supplied by Section 6, Part XI, paragraph B of the 2008 NAIC Handbook.

Policy Forms and Underwriting Practices

The Company operates under an underwriting guidelines and instructional manual. As stated in the manual, the Company's policy is geared to attract only clients that have a good past performance record and that show a large degree of financial stability. The Company's underwriting manual details steps to be taken so that it only attracts insureds that meet this criteria. In general and in part the underwriting procedures and requirements are as follows:

- 1. The underwriter makes a personal visit with the contractor and compiles an individual profile.
- 2. The Company obtains annual audited financial statements from the past three years of the contractor to whom the surety bond is to be written.
- 3. The underwriter is presented with key financial ratios to be applied against the contractor's financial statements for the prior three years. The ratios are meant to verify that the contractor is solvent, profitable and liquid.
- 4. The security pledged as collateral to secure the bond is verified and all of the proper documentation necessary to protect the interests of the Company are obtained.
- 5. CPA prepared business financial statements.
- 6. Clean personal and business credit history.

All of the policy forms issued by the Company are non-participating.

Advertising and Sales Material

A review and sampling of advertisement materials submitted by the Company determined FIA to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

Treatment of Policyholders

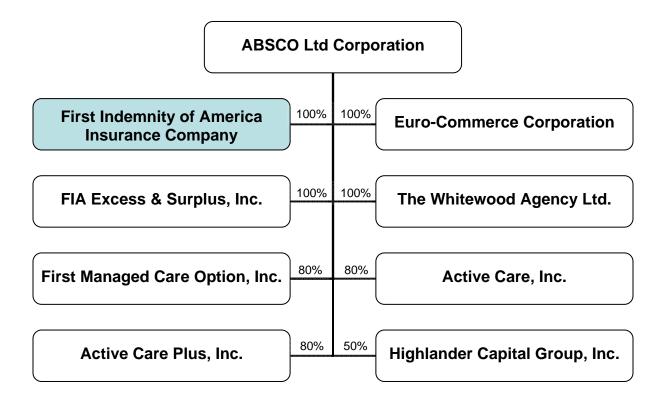
The Company keeps a journal whereby all grievances filed against First Indemnity are maintained. Inspection of this journal revealed a very low number of registered complaints, which was confirmed via a review of the NAIC Closed Complaint Trend Report for the respective examination period. Complaints are handled by in-house counsel, the documentation of which was adequately supported.

HOLDING COMPANY SYSTEM

Affiliated Companies

The Company is a wholly owned subsidiary of ABSCO Limited Corporation ("ABSCO"), which in turn is 57% owned by Patrick Lynch, President and CEO of First Indemnity. The Company, as a member of a holding company system defined under N.J.S.A. 17:27A-1, has filed a registration statement in the name of its parent in accordance with N.J.S.A. 17:27A-3.

The following chart illustrates the interrelationship of the particular companies within the holding company system as of December 31, 2007:



Euro-Commerce Corporation ("ECC") is a service organization acting as a TPA that provides underwriting and various administrative services relating to surety bonding programs.

FIA Excess & Surplus, Inc. ("FIAES") is a New Jersey licensed surplus lines insurance broker a.d.b.a. *The Littleton Agency*.

The Whitewood Agency Ltd. ("TWA") is a surplus lines insurance broker.

First Managed Care Options, Inc. ("FMCO") is a New York corporation that provides managed care (for workers' comp claims) and independent medical examination services.

Active Care, Inc. and Active Care Plus, Inc. both maintain a network of providers and hospitals.

Highlander Capital Group, Inc. ("HCG") is a broker/dealer registered under the Securities Exchange Commission.

Inter-Company Agreements

The Company is a party to the following two inter-company agreements in force at December 31, 2007:

Claims Management Agreement

Under the terms of the agreement, Euro-Commerce Corporation will provide claims adjusting services to FIA on a time-to-time basis as needed and requested by the Company. Euro-Commerce Corporation is engaged among other things in the business of investigating, adjusting and resolving surety claims and instituting recovery efforts on behalf of insurance carriers. The agreement may be terminated by either party upon thirty days written to the other party and to the Department. The Company retains the sole authority to compromise or settle claims for which Euro-Commerce Corporation shall provide adjusting services. The agreement is effective as of January 7, 2003, and was non-disapproved by the Department on June 8, 2004.

Tax Allocation Agreement

Effective December 31, 2002, the agreement governs the filing of federal income taxes on a consolidated basis and stipulates that each company's tax burden would be computed in accordance with each entity's proportionate share of the tax liability on a separate return basis. The tax liability apportioned to any member shall not be greater than the consolidated tax liability. Payment from members of the group is due no later than 30 days after the filing of a consolidated return by the parent. Any controversy or claim arising out of or relating to this agreement will be settled by arbitration in accordance with the rules of the American Arbitration Association. This agreement may not be assigned or transferred by any party of the affiliated group without the prior written consent of all of the other parties.

The parties to the agreement, in addition to the Company and its parent, are as follows:

Euro Commerce Corp. FIA Excess and Surplus, Inc. Active Care, Inc. First Managed Care Option, Inc.

MANAGEMENT & CONTROL

Board of Directors

The business and property of the Company is managed and controlled by the Board of Directors (hereafter "the Board"), except as otherwise provided by the by-laws.

The by-laws specify that the Board shall consist of up to sixteen (16) members. Each director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until that director's successor shall have been elected and qualified.

As of December 31, 2007, the Board consisted of seven members six of which were outside directors. The duly elected members were as follows:

Name and Address
Patrick J. Lynch
Denville, NJ
Principal Occupation
President/CEO
First Indemnity

Kathy A. Luisi Owner

Surfside, FL EBCO International, Inc.

Phillip Ressa Owner/Broker

Staten Island, NY RJW Brokerage Corp.

John P. Teevan Broker

Holmdel, NJ Gunn Allen Financial

Martin O. Teevan Broker

Holmdel, NJ Westminster Securities

Anthony Tomae Retired

Point Pleasant, NJ

John W. Weller President

Holmdel, NJ Weller Mortgage Funding

Regular meetings of the Board shall be held without notice immediately following and at the same place as the annual shareholders' meeting for the purposes of electing officers and conducting such other business as may come before the meeting. The Board, by resolution, may provide for additional regular meetings which may be held without notice, except to members not present at the time of the adoption of the resolution. Special meetings of the Board may be called at any time by the president or by directors for any purpose. A majority of the elected Board shall constitute a quorum for the transaction of business.

The by-laws of First Indemnity *do not* provide for the appointment of committees, which is required under <u>N.J.S.A.</u> 17:27A-4d(4). However, the Company has established two committees for compliance purposes. The members of the committees serving at December 31, 2007, were as follows:

Audit Committee

Kathy A. Luisi Anthony Tomae John W. Weller

Finance Committee

Entire Board

The Company has a charter in place delineating the composition, function and objectives of its Audit Committee. This committee is responsible for, among other duties, approving all auditing services and establishing procedures relating to the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters. The committee satisfies the statutory provisions of N.J.S.A 17:27 A-4d, paragraph 4, which requires the establishment of at least one committee to be composed entirely of outside directors who are not officers, employees, or beneficial owners of controlling interest in the voting securities of the Company

The Finance Committee develops investment strategy for the Company and maintains oversight over its investments. This committee, along with the rest of the Board, meets the provisions of N.J.S.A. 17:27A-4d, paragraph 3, which requires that at least one-third of the membership (exclusive of the Audit Committee) be made up of outside directors only.

A review of corporate board minutes applicable to the examination period indicated that directors held their regular meetings in accordance with the Company's by-laws, for the purpose of transacting business. The minutes indicated that a majority of directors attended these meetings. For the three-year period under examination, the Board held eighteen (18) meetings, key discussions of which were reviewed under the 'Corporate Records' section below.

The Board of Directors location for all correspondence and meetings is the FIA home office, 119 Littleton Road, Parsippany, New Jersey 07054.

Officers

The by-laws, congruent with N.J.S.A. 14A:6-15, stipulate that during its regular meeting following the annual meeting of shareholders, the Board shall elect a president, a treasurer, a secretary and such other officers, including one or more vice presidents, as it shall deem necessary. One person may hold two or more offices.

The elected officers of the Company serving at December 31, 2007, were as follows:

Name
Patrick J. Lynch
President
Glenn A. Runne
Jane E. Lynch
Joseph C. Glavin, Jr.
Moira M. Blazier
Michael J. Tully

Office(s)
President
Vice President
Vice President
Vice President

Corporate Records

A review of the minutes of the Company's board and committee meetings indicated that transactions and events were adequately authorized and supported, in accordance with the provisions of the Company's bylaws. However, the review indicated that the Board failed to discuss or evaluate conflicts of interest disclosure statements submitted by officers and directors of the Company to determine the potentiality or presence of material conflicts that may have arisen during the examination period.

It is therefore recommended that the Board thoroughly review, on an annual and/or availability basis, conflict disclosure submissions made by officers, directors, and other key personnel, and that the results of the review be made part of the Company's corporate minutes.

Policy on Conflicts of Interest

The Company maintains a program for the disclosure of conflicts of interest. Each year all officers, directors and key employees are required to complete a formal questionnaire requiring personnel to reveal any act or outside affiliation that is likely to conflict with an individual's official duties with the Company.

Examination review of these questionnaires, applicable to all years of the examination period, indicated that all potential conflicts were appropriately reported.

Dividends to Stockholders

No dividends were declared or paid during the examination period.

ACCOUNTS AND RECORDS

The Company makes use of an IBM AS/400 Advanced 36 mainframe and a network of personal computers using various software programs to conduct its operations.

General Ledger: Financial transactions are processed via the ZLAND Versa Pro 2001, a PC-based accounting program. The general ledger is not integrated with the Company's other electronic data processing systems requiring total entries to be made from the reports generated by these auxiliary systems, which also include amount values from source documents calculated manually on Lotus spreadsheets. Once all journal entries are posted, the Versa Pro program produces a trial balance and the final balance sheet and income statement.

A trial balance was provided for the year ending December 31, 2007, and balances were traced to the appropriate asset, liability and income and expense exhibits of the 2007 annual statement.

<u>Premiums</u>: Premiums are processed in-house on the Company's AS/400 system based on data supplied by the underwriting department and/or the accounting department. The system prints an invoice upon the production of a surety bond. When cash is received, it is entered into Quicken and then applied against the invoice and reconciled to the accounts receivable.

At the end of each month, the system generates the following reports: (a) premium billing register, (b) summary of written business broken down by reinsurance coverage, (c) cash receipts report and disbursements, and (d) an aged accounts receivables report sorted by broker.

<u>Claims</u>: Losses are also processed in-house on the AS/400 system. Activation of claims is triggered by entries made to the check writing system for paid losses, paid LAE and recoveries. The reserves are then set by the claims area, reviewed by the Chief Financial Officer, and input into the mainframe system. The final reserve information is then entered into the general ledger system.

Vouchers for claim payments are prepared and signed by two people in the claims department and submitted to the accounting department for review. Loss and LAE payments are batched monthly by claim and input into the AS400 system as are any new reserves or reserve changes. The following relevant reports are produced by the system: (a) summary of incurred losses, (b) claims reserve and paid loss run, and (c) monthly cash disbursements.

<u>Investments</u>: The Company's portfolio mainly consists of bonds and notes, which are monitored on a PC-based system called the SunGard *Schedule D Investment Manager System* (SDIM). This program generates the Company's Schedule D from the input of data obtained from broker's advices. Interest receipts are directed to the accounting department where they are reviewed and submitted to the Assistant

Treasurer, who then enters the receipts into the Company's cash system. Reconciliations of accounts are performed on a monthly basis by the Assistant Treasurer and reviewed by the Assistant Controller. Reports are then produced monthly and the cash information is entered into the general ledger system.

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by the CPA firm *Mangum*, *Goodwin & Co.*, *P.A.*, and an audited financial CPA report was filed with the Department. The report contains a synopsis of the major audit activities and results thereof in the corporate area.

EMPLOYEE WELFARE AND BENEFIT PLANS

The Company, through its parent ABSCO Ltd. Corp., offers a 401(K) Plan to its employees who are eligible to participate of which the Company matches 50% up to 6% of the employees' contribution.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

FIA had the following insurance coverages in effect as of December 31, 2007:

- 1. Blanket bond coverage through its holding company with the Great American Insurance Group. The Company is covered by blanket fidelity insurance in the amount of \$500,000 (each occurrence), provided through the holding company system via ABSCO, the insured name in the policy. A review of the NAIC requirement guidelines for minimum amount of fidelity insurance indicated that the Company is adequately protected.
- 2. General liability coverage with One Beacon Insurance Group.

Other Liability Coverages

Coverage	<u>Limits</u>	
General Aggregate	\$2,000,000	
Products/Complete Operations Aggregate	\$2,000,000	(per occurrence)
Personal and Advertising Injury	\$1,000,000	
Damage to Premises Rented to Company	\$1,000,000	(per occurrence)
Medical Expenses	\$10,000	(per person)
Employee Benefits	\$250,000	(each claim)
	\$500,000	(annual aggregate)
	\$1,000	(deductible)

Umbrella Declarations

\$14,000,000 Each Occurrence Limit \$14,000,000 Products/Completed Operations Aggregate Limit \$14,000,000 Bodily Injury By Disease Aggregate Limit \$14,000,000 General Aggregate Limit Of Insurance	<u>Coverage</u>	<u>Limits</u>
\$14,000,000 Bodily Injury By Disease Aggregate Limit	\$14,000,000	Each Occurrence Limit
	\$14,000,000	Products/Completed Operations Aggregate Limit
\$14,000,000 General Aggregate Limit Of Insurance	\$14,000,000	Bodily Injury By Disease Aggregate Limit
	\$14,000,000	General Aggregate Limit Of Insurance

REINSURANCE

The Company, as at December 31, 2007, maintains a Surety Quota Share Reinsurance Agreement with the Reinsurance Company of North America, Inc. The agreement applies to surety bonds written by the reinsured between and effective on July 12, 2007 to July 12, 2008

The ceded Surety Quota Share Reinsurance Agreement in effect and the maximum limits of reinsurance are summarized as follows:

	Percent	Reinsured	Reinsured
	Retained By	Maximum	Maximum
Bond Amount	Reinsured	<u>Retention</u>	<u>Retention</u>
\$0 - \$150,000	100%	\$150,000	\$0
150,001 to 300,000	50%	225,000	150,000
300,001 to 450,000	50%	300,000	225,000
450,001 to 600,000	33.33%	350,000	300,000
600,001 to 750,000	25%	387,500	350,000

The Company warrants and represents to the reinsurer that surety bond amount on any surety bond subject to this agreement will not exceed \$750,000.

CONTINUITY OF OPERATIONS

The Company has developed and maintains a basic disaster recovery plan for the purpose of continuing its business operations in the event of a natural or man made disaster. The plan provides for a disaster recovery committee, headed by the Company's IT manager, who is responsible for the location, indemnification and acquisition of offsite information systems sufficient to store and maintain all of the Company's underwriting, financial and claims records. The committee is also responsible for locating and if possible acquiring duplicate methods of maintaining such records on side in a location separate and apart from the existing systems location.

At December 31, 2007, the Company did not have a complete or tested Disaster Recovery and Business Continuity Plan. Subsequent to the examination date, the Company did complete and has begun testing portions of this plan.

Accordingly, it is recommended that the Company complete testing of the various sections of their Disaster Recovery / Business Continuity Plan, and that they schedule and execute regular, periodic testing of this plan, in addition to completing and maintaining documentation for these periodic tests.

FINANCIAL STATEMENTS

Financial statements and other exhibits are presented as listed below:

Exhibit - A	Comparative Statement of Financial Position as of December 31, 2004, and December 31, 2007
Exhibit - B	Statement of Operating Results for the Three-Year Period ended December 31, 2007
Exhibit - C	Capital and Surplus Account for the Three-Year Period ended December 31, 2007

EXHIBIT A

COMPARATIVE STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2004 AND DECEMBER 31, 2007

Preferred -0- -0- -0- 1,661,96		per Examination		per Examination per Company		per Company		per Company		per Company		Examination	Note	per Examination								
Preferred	<u>ASSETS</u>		2007		2007		2007		2007		2007		2007		2007 Cha		Change No.		2004		2004	2004
Preferred	Bonds	\$	1,437,082	\$	5 1,437,082			# 1	\$	2,189,137												
Common -0- -0- -0- 10,05 Mortgage Loans on Real Estate - First Liens 408,274 408,274 408,274 10- 167,06 Real Estate: Properties Occupied by the Company -0- -0- -0- 295,91 Cash & Short Term Investments 1,889,712 1,889,712 #2 1,142,32 Investment Income Due and Accrued 189,320 189,320 189,320 189,320 189,60 Amounts Recoverable From Reinsurers 142,206 142,206 142,206 142,206 \$6,614,61 Liabilitries Losses 3,640,616 \$4,640,616 \$- \$6,614,61 Losses \$3,103,489 \$4,134,489 \$1,031,000 #3 \$ (1,995,76 Losses \$3,400,406 \$4,640,616 \$- *3 \$3,070,97 Uncer Expenses (excluding taxes, licenses, and fees) 208,067 208,067 #3 \$3,070,97 Loss Adjustment Expenses \$5,413 \$5,413 \$5,413 \$4,82 Loss Acquistment Expenses	Stocks:																					
Mortgage Loans on Real Estate - First Liens 408,274 408,274 408,274 808,274	Preferred		-0-		-0-					1,661,961												
Real Estate: Properties Occupied by the Company	Common		-0-		-0-					10,055												
Properties Occupied by the Company	Mortgage Loans on Real Estate - First Liens		408,274		408,274					167,068												
Other Properties -0- (1-10) 295,91 Cash & Short Term Investments 1,889,712 1,889,712 1,889,712 1,289,712 1,289,712 1,242,32 11,142,323 11,142,323 11,142,323 11,142,323 11,142,323 11,142,323 11,142,320 127,900 127,900 205,790 205,790 189,320 189,320 189,320 189,320 189,320 189,320 189,320 127,900 205,790 205,790 205,790 205,790 205,790 205,790 208,067 208,067 208,067 208,067 208,067 208,067 208,067 208,067 208,067 208,067 208,067 224,52 224,52 224,52 124,52 <	Real Estate:																					
Cash & Short Term Investments	Properties Occupied by the Company		-0-		-0-					830,648												
Investment Income Due and Accrued 18,320 189,320 127,90 Uncollected Premiums and Agents' Balances 205,790 205,790 189,60 Amounts Recoverable From Reinsurers 142,206 142,206	Other Properties		-0-		-0-					295,912												
Uncollected Premiums and Agents' Balances 205,790 205,790 189,60 Amounts Recoverable From Reinsurers 142,206 142,206 - Receivable from PSA 368,232 368,232 - Total Admitted Assets \$ 4,640,616 \$ 4,640,616 \$ - Losses \$ (3,103,489) \$ (4,134,489) \$ 1,031,000 # 3 \$ (1,995,76 Loss Adjustment Expenses 1,894,775 1,894,775 # 3 3,070,97 Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 # 3 3,070,97 Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 # 3 3,070,97 Other Expenses (excluding taxes, licenses, and fees) 85,413 85,413 85,413 4,82 Unearned Premiums 825,879 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 591,000 55,77 Total Liabilities \$ 1,583,215 \$ 552,215	Cash & Short Term Investments		1,889,712		1,889,712			# 2		1,142,320												
Amounts Recoverable From Reinsurers Receivable from PSA 368,232 368,232 Total Admitted Assets \$ 4,640,616 \$ 4,640,616 \$ - \$ 6,614,61 LIABILITIES Losses \$ (3,103,489) \$ (4,134,489) \$ 1,031,000 #3 \$ (1,995,76	Investment Income Due and Accrued		189,320		189,320					127,909												
Receivable from PSA 368,232 368,232 368,232	Uncollected Premiums and Agents' Balances		205,790		205,790					189,608												
LIABILITIES \$ 4,640,616 \$ 4,640,616 \$ - \$ 6,614,61 Losses \$ (3,103,489) \$ (4,134,489) \$ 1,031,000 # 3 \$ (1,995,76 Loss Adjustment Expenses 1,894,775 1,894,775 # 3 3,070,97 Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 224,52 Taxes, Licenses and Fees 85,413 85,413 4,82 Unearned Premiums 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,00 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,94 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29	Amounts Recoverable From Reinsurers		142,206		142,206					-0-												
LIABILITIES Losses \$ (3,103,489) \$ (4,134,489) \$ 1,031,000 # 3 \$ (1,995,76 Loss Adjustment Expenses 1,894,775 1,894,775 # 3 3,070,97 Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 224,52 Taxes, Licenses and Fees 85,413 85,413 4,82 Unearned Premiums 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,00 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,94 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Receivable from PSA		368,232		368,232					-0-												
Losses	Total Admitted Assets	\$	4,640,616	\$	4,640,616	\$	-		\$	6,614,618												
Loss Adjustment Expenses 1,894,775 1,894,775 # 3 3,070,970 Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 224,52 Taxes, Licenses and Fees 85,413 85,413 4,82 Unearned Premiums 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 -0- -0- Provision for Reinsurance -0- -0- 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,00 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,94 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	<u>LIABILITIES</u>																					
Loss Adjustment Expenses 1,894,775 1,894,775 # 3 3,070,970 Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 224,52 Taxes, Licenses and Fees 85,413 85,413 4,82 Unearned Premiums 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 -0- -0- Provision for Reinsurance -0- -0- 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,00 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,94 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Losses	\$	(3,103,489)	\$	(4,134,489)	\$	1,031,000	#3	\$	(1,995,760)												
Other Expenses (excluding taxes, licenses, and fees) 208,067 208,067 208,067 224,52 Taxes, Licenses and Fees 85,413 85,413 4,82 Unearned Premiums 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 Provision for Reinsurance -0- -0- 55,77 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,00 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,94 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Loss Adjustment Expenses		1,894,775					#3		3,070,970												
Unearned Premiums 825,879 825,879 495,62 Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000 Provision for Reinsurance -0- -0- 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 # 4 \$ 3,500,00 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,94 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Other Expenses (excluding taxes, licenses, and fees)		208,067		208,067					224,523												
Ceded Reinsurance Premiums Payable 1,081,570 1,081,570 1,003,36 Funds Held Under Reinsurance Treaties 591,000 591,000	Taxes, Licenses and Fees		85,413		85,413					4,824												
Funds Held Under Reinsurance Treaties Provision for Reinsurance Provision for Reinsurance Funds Held Under Funds Held Held Held Held Held Held Held Held	Unearned Premiums		825,879		825,879					495,622												
Provision for Reinsurance -0- -0- 55,77 Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,000 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,945 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 \$ 3,755,29 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Ceded Reinsurance Premiums Payable		1,081,570		1,081,570					1,003,367												
Total Liabilities \$ 1,583,215 \$ 552,215 \$ 1,031,000 \$ 2,859,32 CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,000 Gross Paid-in and Contributed Surplus 480,945 # 4 <td< td=""><td>Funds Held Under Reinsurance Treaties</td><td></td><td>591,000</td><td></td><td>591,000</td><td></td><td></td><td></td><td></td><td>-0-</td></td<>	Funds Held Under Reinsurance Treaties		591,000		591,000					-0-												
CAPITAL AND SURPLUS Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,000 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,945 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 (225,64 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Provision for Reinsurance		-0-		-0-					55,774												
Common Capital Stock \$ 3,500,000 \$ 3,500,000 # 4 \$ 3,500,000 Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,945 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 (225,64 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Total Liabilities	\$	1,583,215	\$	552,215	\$	1,031,000		\$	2,859,320												
Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,945 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 (225,64 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	CAPITAL AND SURPLUS																					
Gross Paid-in and Contributed Surplus 480,945 480,945 # 4 480,945 Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 (225,64 Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	Common Capital Stock	\$	3,500,000	\$	3,500,000			#4	\$	3,500,000												
Unassigned Funds (surplus) (923,544) 107,456 (1,031,000) # 4 (225,64) Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29	÷							#4		480,945												
Surplus as Regards Policyholders \$ 3,057,401 \$ 4,088,401 \$ (1,031,000) # 4 \$ 3,755,29							(1,031,000)	# 4		(225,647)												
Total Liabilities, Capital and Surplus \$ 4,640,616 \$ 4,640,616 \$ -0- \$ 6,614,61		\$		\$		\$	(1,031,000)	# 4	\$	3,755,298												
	Total Liabilities, Capital and Surplus	\$	4,640,616	\$	4,640,616	\$	-0-		\$	6,614,618												

EXHIBIT B

STATEMENT OF OPERATING RESULTS FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>UNDERWRITING INCOME</u>			
Premiums Earned	\$ 2,316,501	\$ 2,347,971	\$ 3,078,982
Deductions:			
Losses and Loss Expenses Incurred	685,835	999,744	2,638,935
Other Underwriting Expenses Incurred	2,058,059	2,567,718	2,637,856
Total Underwriting Deductions	2,743,894	3,567,462	5,276,791
Net Underwriting Gain or (Loss)	\$ (427,393)	\$(1,219,491)	\$(2,197,809)
INVESTMENT INCOME			
Net Investment Income Earned	266,441	(18,526)	210,216
Net Realized Capital Gains/(Losses)	2,126,344	(61,388)	(31,027)
Net Investment Gain or (Loss)	\$ 2,392,785	\$ (79,914)	\$ 179,189
OTHER INCOME			
Aggregate Write-ins for			
Miscellaneous Income	4,529	-0-	400
Total Other Income	\$ 4,529	\$ -0-	\$ 400
Dividends to Policyholders	-0-	-0-	-0-
Federal and Foreign Income Taxes Incurred	-0-	(115,481)	(349,164)
Net Income	\$ 1,969,921	\$(1,183,924)	\$(1,669,056)

EXHIBIT C

<u>CAPITAL AND SURPLUS ACCOUNT</u> <u>FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2007</u>

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Surplus as Regards Policyholders December 31, Previous Year	\$ 3,755,298	\$ 5,543,563	\$ 4,781,733
Net Income	1,969,921	(1,183,924)	(1,669,056)
Change in Net Unrealized Capital Gains/(Losses)	260,947	70,249	34,814
Change in Net Deferred Income Tax	-0-	-0-	-0-
Change in Non-admitted Assets	(466,272)	319,740	(90,090)
Change in Provision for Reinsurance	23,669	32,105	-0-
Total Adjustments	\$ (181,656)	\$ 422,094	\$ (55,276)
Change in Surplus for the Year	\$ 1,788,265	\$ (761,830)	\$ (1,724,332)
Surplus as Regards Policyholders			
Decemebr 31, Current Year	\$ 5,543,563	\$ 4,781,733	\$ 3,057,401

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Bonds:

At December 31, 2007, the Company's portfolio consisted of corporate, U.S. Treasury and U.S. Government Agency bonds and notes, majorly held by TD Banknorth, N.A., and (formerly Commerce Bank). There were no stock transactions or balances reported during the examination period. Bonds amounted to \$1,437,082 representing approximately 31% of total admitted assets, and were valued at amortized cost in accordance with **SSAP No. 26**, *Bonds*, *excluding Loan-Backed and Structured Securities*. These securities were confirmed without exception via verification of audit work conducted by *Mangum*, *Goodwin & Co.*, *P.A.*, independent CPAs. Special Deposits held by the State of New Jersey were confirmed directly with the Department.

Statutory Deposits

At December 31, 2007, the Company held various bonds with a total par value of \$1,479,000 with NJDOBI. Additionally, the Company held a cash deposit of \$299,806 with the Commissioner of Insurance of the State of Florida and a U.S. Treasury Note with a par value of \$35,000 with the Commissioner of Insurance of the State of Georgia. These deposits were held in trust for the benefit and security of the policyholders of First Indemnity.

Note 2 - Cash and Short Term Investments

The Company incorrectly classified a money market fund as cash on Schedule E-Part 1 of the annual statement. The fund equaled \$602,508 and represented approximately 99% of the total assets reported in Schedule E.

According to **SSAP No. 2**, paragraph 11, investments in money market funds shall be reported in accordance with the guidance set forth in the NAIC Purposes and Procedures manual ("P&P Manual"). As indicated in the P&P Manual, as well as the NAIC Property/Casualty Annual Statement Instructions, money market funds are to be classified either in Schedule DA or in Schedule D of the annual statement, depending on whether these securities meet certain qualifying criteria as determined by the NAIC Securities Valuation Office ("SVO").

It is therefore recommended that the Company classify and report money market funds in accordance with the guidelines and conventions developed in the P&P Manual and annual statement instructions, compliant with SSAP No. 2, paragraph 11.

Note 3 - Losses and Loss Adjustment Expenses

At December 31, 2007, the Company reported a net liability for Loss and Loss Adjustment Expenses of (\$2,239,714) which consisted of net loss reserves of (\$4,134,489) and net loss adjustment expenses of \$1,894,775. It was determined by this examination that the net liability for loss and loss adjustment expenses will be (\$1,208,714) which is a deficiency of \$1,031,000 from the amount reported by the Company.

A review of the reserves for losses and loss adjustment expenses was completed by the Property and Casualty Actuarial Division of the NJDOBI. On the basis of this review, it was determined that the results of the actuarial analyses found gross and net booked reserves to be below low ends of the reasonable range and deficient by material amounts. For gross reserves, the Company's reserves of \$(2,297,000) were determined to be \$(742,000) for a deficiency of \$1,555,000. For net reserves, the Company's reserves of (\$2,238,000) were determined to be \$(1,207,000) for a deficiency of \$1,031,000.

It is recommended the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

Note 4 - Capital and Surplus

Capital Stock

The outstanding stock of the Company at December 31, 2007, consisted of 200,000 shares of common stock with a par value of seventeen dollars and fifty cents (\$17.50) per share for a total capital of \$3,500,000.

Gross Paid-in and Contributed Surplus

The gross paid-in and contributed surplus reported by the Company at December 31, 2007, totaled \$480,945, the same as the previous examination.

Unassigned Funds

Total unassigned funds, as per the examination review, amounted to \$(923,544), which was \$1,031,000 less than the amount reported by the Company, resulting from a negative adjustment as determined by this examination. The decrease was due to the Company understating its year-end net liability for loss and loss adjustment expenses reserves as detailed in Note 3 above.

Surplus as Regards Policyholders

The Company meets the statutorily required minimum capital and surplus balance of \$1,850,000, an excess of \$1,207,401.

SUMMARY OF RECOMMENDATIONS

Compliance with Prior Examination Report Recommendations

p.5 <u>Territory and Plan of Operation</u>. It was recommended in the last examination and again is reiterated that the Company obtain written contracts between itself and any reinsurance intermediary-broker(s) in conformity with the stipulations of N.J.S.A. 17:22E-6.

Territory and Plan of Operation

p.5 It is recommended that the Company establish an accounting and record-keeping system for the acquisition and compilation of data and statistics on all of its producers, and make this information available to NJDOBI to facilitate the review by and satisfy the documentation needs of the Department.

Corporate Records

p.9 It is recommended that the Board thoroughly review, on an annual and/or availability basis, conflict disclosure submissions made by officers, directors, and other key personnel, and that the results of the review be made part of the Company's corporate minutes.

Continuity of Operations

p.12 Accordingly, it is recommended that the Company complete testing of the various sections of their Disaster Recovery / Business Continuity Plan, and that they schedule and execute regular, periodic testing of the plan, in addition to completing and maintaining documentation for these periodic tests.

Notes to Financial Statements

- p.17 <u>Cash and Short Term Investments</u>. It is recommended that the Company classify and report money market funds in accordance with the guidelines and conventions developed in the P&P Manual and Annual Statement Instructions, compliant with SSAP No. 2, paragraph 11.
- **p.17** <u>Losses and LAEs</u>. It is recommended the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES STATEMENT BY NJDOBI ACTUARY

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the NJDOBI, have performed an actuarial review of the reported December 31, 2007 loss and loss adjustment expense reserves for the First Indemnity of America Insurance Company.

Actuarial findings as stated above and in this examination report are the sole responsibility of the NJDOBI's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

/S/ Boris Privman Managing Actuary

CONCLUSION

The statutory condition examination was conducted by the undersigned with the support of the New Jersey Department of Banking and Insurance field and office staff, at the Company's home office located at 119 Littleton Road, Parsippany, NJ 07054.

The courteous assistance and cooperation of the Company's officers, employees and certified public accounting firm is acknowledged.

Respectfully submitted,

/S/

Allen L. Abbott Examiner-in-Charge Department of Banking & Insurance State of New Jersey

FIRST INDEMNITY OF AMERICA INSURANCE COMPANY

I, Allen L. Abbott, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2007, to the best of my information, knowledge, and belief.
Respectfully submitted,

/S/
Allen L. Abbott
Insurance Examiner I
Department of Banking & Insurance

State of New Jersey County of Mercer

Subscribed and sworn to before me, Sheila M. Thacs, on this 29th day of July, 2009.

/S/ Sheila M. Thacs Notary Public of New Jersey My commission expires: July, 2010